



Montana Department of Revenue

SENATE FINANCE & CLAIMS

House Bill 10 – Long-Range Information Technology Program Improved Efficiency through Imaging Technology Enhanced Compliance Activities

Exhibit No. 8
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Bill No. HB 10

The Department of Revenue's proposed imaging technology will enhance compliance activities generating an estimated \$3,653,000 and \$4,467,000 of general fund revenue for the FY2011 and FY2013 Biennium respectively.

	FY2010	FY2011	FY2012	FY2013
Enhanced Compliance Revenue	\$ 1,500,000	\$ 2,153,000	\$ 2,206,000	\$ 2,261,000

This estimate is solely based on the imaging of withholding statements (W-2). The first phase of the imaging project will capture data from imaging the W-2 submitted annually by employers and eventually employees.

The imaged information will be used to verify that: 1) all employers are properly remitting wages that have been withheld from their employees, and 2) verify that employees are claiming the proper amount of withholding. The estimated revenue generated is based on the Department's experience with misreported withholding and from other states' experience with noncompliance in the withholding tax area.

Currently, the Department does review and address compliance issues related to employer/employee withholding. However, for those W-2s that have been submitted on paper, the process is cumbersome and lengthy. Employers remit the wages withheld for their employees to the Department on or before February 28th of each year. When this information is submitted via paper W-2s, the Department is unable to enter this information until the fall of that year due to other priorities. Unfortunately, it can be 10-12 months before the Department begins to review the W-2 information submitted for compliance. If an employer or employee has misreported or not reported, the Department begins to contact them nearly a year after the reporting date. This poses a problem for enforcing timely compliance and in providing taxpayers timely customer service for Montana.

For example, from the Department's experience some employers, when in financial difficulty, use employees' withholding to cover other debt obligations. By the time the Department can review these withholding accounts, many of the businesses with financial difficulties have gone out of business and thereby the state is unable to collect the taxes it is owed by these businesses, which, in turn, affects the general fund. Imaging paper W-2s would allow the Department to begin reviewing potential noncompliant situations earlier, and thereby increasing the likelihood of collecting delinquent withholding taxes before an employer goes out of business.

This proposal will simply allow the Department to address noncompliant situations in a timely and efficient manner and identify other unreported and unremitted withholding taxes.

As imaging evolves and more tax return data is captured through imaging, similar benefits will be realized. At this time these benefits have not been quantified.